

MARIPOSA COUNTY ASSESSMENT PRACTICES SURVEY AND ASSESSOR'S RESPONSE

MARCH 1999

CALIFORNIA STATE BOARD OF EQUALIZATION

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FOREWORD

The county assessor is responsible for the assessment of all taxable property within the county, except state-assessed property. The assessor's responsibilities include such things as (1) discovering and taking inventory of all property within the county, (2) determining a property's eligibility for a full or partial exemption from assessment, (3) determining the proper assessee, (4) determining the location for assessment purposes of the property, and (5) determining the taxable value of the property in accordance with California property tax law.

Determining taxable value is usually the most difficult and subjective of the assessor's duties. In addition to the inherently subjective nature of the appraisal process, the assessor also has to determine whether the taxable value is to be based on current fair market value or on a restricted value. When there is construction activity on a property, the assessor has to determine whether the construction is to be assessed or whether it is excluded from assessment under the law. When there is an ownership transaction, the assessor has to determine whether the law requires establishment of a new base year value for the property or whether the property must continue to be assessed according to the existing base year value.

The factors discussed above, as well as others not mentioned here, contribute to making local property tax assessment a difficult tax program to administer. It is also a very important program since the property tax is one of the most important sources of revenue for local governments and public schools. For property owners it is a major annual tax burden, and, since it is normally paid in one or two large installments rather than many small increments, it tends to be more visible than most other taxes. Accordingly, proper administration of the property tax assessment program is vitally important both to the public agencies that rely on the tax and to the people who have to pay the tax.

Although the primary responsibility for local property tax assessment is a function of county government, the State Board of Equalization has a number of duties in the property tax field imposed by the State Constitution and the Legislature. One of these duties, performed by the Board's County Property Tax Division, is to conduct periodic surveys of local assessment practices and report the findings and recommendations that result from the survey. The surveys may include a sampling of assessments of the local assessment roll, and they must include research in the assessor's office to determine the adequacy of the procedures and practices employed by the assessor in the assessment of taxable property, compliance with state law and regulations, and other required duties.

The assessor was provided a draft of this report and given an opportunity to file a written response to the recommendations and other findings contained in the report. This report, together with the county assessor's response and the Board's comments regarding the response, constitutes the final survey report which is distributed to the Governor, the Attorney General, both houses of the State Legislature; and the county's Board of Supervisors, Grand Jury, and Assessment Appeals Board.

County Property Tax Division staff completed fieldwork for this survey report of the Mariposa County Assessor's Office during July of 1997. This report does not reflect changes implemented by the assessor after the fieldwork was completed.

The Honorable Gary Estep, the Mariposa County Assessor, and his staff gave us their complete cooperation during the assessment practices survey. We gratefully acknowledge their patience and good spirit during the interruption of their normal work routine.

William B. Jackson, Chief
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California State Board of Equalization
March 1999

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EXECUTIVE SUMMARY

INTRODUCTION

Regardless of the size of the county, the assessment of property for tax purposes is a formidable task. Proper administration of this task is vital both to government agencies in Mariposa County and to taxpayers. Because the job is so important and so complex, it is necessary for an independent agency such as the State Board of Equalization (BOE) to make periodic reviews of the assessor's operation. This survey report is the result of such a review of the Mariposa County Assessor's Office by the BOE's County Property Tax Division (CPTD).

Government Code Section 15640, in part, mandates that the State Board of Equalization shall:

(a) Make surveys in each county and city to determine the adequacy of the procedures and practices employed by the county assessor in the valuation of property for the purposes of taxation and in the performance generally of the duties enjoined upon him or her. (c) The survey may include a sampling of assessments from the local assessment rolls sufficient in size and dispersion to insure an adequate representation therein of the several classes of property throughout the county. (f) The board shall develop procedures to carry out its duties under this section after consultation with the California Assessors' Association. The board shall also provide a right to each county assessor to appeal to the board appraisals made within his or her county where differences have not been resolved before completion of a field review and shall adopt procedures to implement the appeal process.

It is apparent from this language that the Legislature envisioned the BOE's office research and appraisal sampling to be parts of a single, connected process, i.e., the evaluation of how well the county assessor is carrying out his or her sworn duty to properly assess all taxable property on the local tax roll. This evaluation was to be based both on office research, or in certain circumstances, office research and actual field appraisals of sampled roll items. The way in which the office research and the sampling process is carried out was developed after consultation with the county assessors by the staff of the BOE's Property Taxes Department.

This survey was conducted according to the method mandated by Government Code section 15642. Following legislative direction, our survey primarily emphasizes issues that involve revenue generation or statutory mandate. This report is the culmination of a review of the Mariposa County Assessor's operation that consisted of the CPTD's office research that examined current practices and procedures in key areas to see whether significant problems exist in the assessor's operation. Finally, the survey report offers positive courses of action, presented here as recommendations and suggestions, to help

the assessor resolve problems identified in the program. The recommendations and suggestions contained in this report are based on our analysis of data which indicates that statutory violations, under or over assessments, or unacceptable appraisal practices may be occurring in specific areas.

Revenue and Taxation Code section 75.60 requires that the BOE certify a county as eligible for the recovery of costs associated with administering supplemental assessments. In order for a county to qualify as an eligible county, it must achieve an average assessment level that is not less than 95 percent of the amount required by law as determined by the BOE through its assessment sampling program. In addition, for sampling for the 1996-97 fiscal year and subsequent fiscal years, the sum of the absolute values of the differences cannot exceed 7.5 percent of the legally required amount.

Based upon our assessment sampling for the 1993-94 assessment roll, the BOE certified Mariposa County as an eligible county. This indicates that its assessment program is in substantial compliance with the law as of that sampling. Section 75.60(c) requires that certification remain in effect until the next sampling. Counties in which a survey has been conducted without sampling are subject to sampling if the BOE believes significant assessment problems as defined in BOE Rule 371 exist. The survey found no indication that significant assessment problems exist in Mariposa County.

SUMMARY

In our 1995 survey report, we made seven recommendations for changes to the assessor's real and personal property assessment programs; not all of these have been implemented. The assessor has generally implemented those recommendations that have a material impact on county revenues. For other recommendations, the assessor has taken an approach that is different from what we recommended. In those instances where we disagree with the assessor's approach, we repeat the recommendation.

The valuation of the rights of the primary concessionaire at the Yosemite National Park produces the county's largest property tax bill. The assessor expends considerable resources to ensure that this account is fairly assessed; we found that this property is being properly assessed.

The assessor is currently implementing a direct enrollment program and has identified about 600 qualifying accounts. Once implemented, these taxpayers would not have business property statements sent to them each year. The assessor would save the cost of the statements, mailing, clerical processing, and appraisal time for valuing the properties each year. Computerized appraisal programs for California Land Conservation Act properties and computer assisted drafting (CAD) are also being developed.

We found some problems with the assessor's application of the county's low value property ordinance and recommend certain changes in procedure.

Two recommended administrative changes involve roll changes and exemptions. Statutory requirements need to be followed when processing roll corrections and proper code sections need to be cited. Also, procedures for preparing the roll and identifying and separating exemptions need to be followed.

The assessor and his staff have made a concerted effort to implement previous recommendations for revisions to the program for assessing new construction. However, we believe that the valuation and enrollment of newly constructed leasehold improvements need to be further improved.

Properties assessed at a value lower than the factored base year value must be reviewed every year. The assessor's procedures for these properties are correct in most instances, but we found numerous errors and omissions.

California Land Conservation Act properties should be field reviewed periodically and the records need to be better documented. In addition, the assessor should use reports available from the Mariposa County Agricultural Commissioner concerning crops and livestock.

We take exception to several policies of the assessor regarding the assessment of small possessory interests. The major thrust of our recommendation on those issues is that the assessor should require his staff to place more emphasis on the proper assessment of small possessory interests.

Adequate procedures do not exist for discovering or valuing the property of water companies. By following our three-part recommendation, the assessor can improve his assessment of water company property.

We commend the assessor for implementing a prior recommendation concerning site classification for Timber Preserve Zone properties (TPZ). We make suggestions to further improve the program.

We make a suggestion that should assist the assessor in improving the assessments of mining claims.

The audit portion of the business property assessment program has been well administered. All mandatory audits have been completed timely and the assessor has been implementing a nonmandatory audit program. We do, however, make several recommendations for changes to the way that business property and private aircraft are valued.

RECOMMENDATIONS AND SUGGESTIONS

This report contains both recommendations and suggestions for improvements to the operation of the Mariposa County Assessor's Office.

Government Code section 15645 requires the assessor to respond in writing to the formal recommendations contained in this report.¹ Our recommendations are reserved for situations where one or more of the following conditions exist:

- Violations of state constitutional provisions, statutes, BOE regulations, or case law are present.
- Existing assessment practices result in property escaping assessment or generation of an incorrect amount of property tax revenue.
- Existing appraisal practices do not conform to Board-adopted appraisal methodologies.

Our suggestions are considered less formal than recommendations, and the assessor is not required to make any response to suggestions. Typically, suggestions are BOE staff opinions on ways the assessor can improve efficiency, product quality, or other matters that do not call for formal recommendations.

The following is a summary of the formal recommendations and suggestions contained in this report, arrayed in the order that they appear in the text. The page is noted where each recommendation and its supporting text may be found.

Recommendations:

- RECOMMENDATION 1: Properly apply the low value property resolution approved by the county board of supervisors. ----- 10***
- RECOMMENDATION 2: Follow statutory requirements by citing proper code sections when processing roll changes. ----- 11***
- RECOMMENDATION 3: Enroll each exemption with an identifying legend. ----- 11***
- RECOMMENDATION 4: Improve controls for decline in value assessment procedures by: (1) insuring such assessments are reviewed annually; and (2) insuring the inflation factor is not applied to assessments with a taxable value less than factored base year value. ----- 16***

¹ Government code section 15645 provides, in relevant part: "...Within a year after receiving a copy of the final survey report, and annually thereafter, no later than the date on which the initial report was issued by the board and until all issues are resolved, the assessor shall file with the board of supervisors a report, indicating the manner in which the assessor has implemented, intends to implement, or the reasons for not implementing the recommendations of the survey report, with copies of that response being sent to the Governor, the Attorney General, the State Board of Equalization, the Senate and Assembly and to the grand juries and assessment appeals boards of the counties to which they relate.

RECOMMENDATION 5:	<i>Revise agricultural assessments by: (1) field reviewing all CLCA properties; (2) increasing documentation concerning carrying capacity and other information needed to value grazing lands and growing improvements; (3) using animal unit months to value grazing lands; and (4) assessing all taxable trees and vines.</i>	<i>18</i>
RECOMMENDATION 6:	<i>Revise the possessory interest assessment program by: (1) ensuring that all possessory interests are revalued when changes in ownership occur; (2) documenting possessory interest values that are lower than low value exemption level; (3) assessing all taxable possessory interests at the county fairgrounds; (4) documenting source of capitalization rates; and (5) not assessing possessory interests in government-owned manufactured homes.</i>	<i>20</i>
RECOMMENDATION 7:	<i>Revise the assessment of mutual water company property by: (1) reviewing all water source properties that are annually inspected by the county's Environmental Health Office; (2) documenting pertinent information on the assessment records; and (3) uniformly assessing mutual water company property.</i>	<i>23</i>
RECOMMENDATION 8:	<i>Use the BOE's depreciation schedules as recommended when valuing mobile agricultural and construction equipment.</i>	<i>27</i>
RECOMMENDATION 9:	<i>Require uniform application of trend factors and economic lives within similar business property types.</i>	<i>28</i>
RECOMMENDATION 10:	<i>Properly classify fixed machinery and equipment as real property.</i>	<i>29</i>
RECOMMENDATION 11:	<i>Revise boat appraisal procedures by: (1) annually appraising boats at market value and (2) using a certified appraiser for valuation or review purposes.</i>	<i>30</i>
RECOMMENDATION 12:	<i>Revise general aircraft assessment procedures to comply with BOE directives for assessing aircraft.</i>	<i>31</i>
RECOMMENDATION 13:	<i>Classify manufactured homes, except those placed on approved permanent foundations, as personal property.</i>	<i>32</i>

Suggestions:

<i>SUGGESTION 1:</i>	<i>Regularly obtain fire reports from fire departments within the county. -----</i>	<i>11</i>
<i>SUGGESTION 2:</i>	<i>Collect and document data supporting the adjustment applied to new swimming pool costs. -----</i>	<i>15</i>
<i>SUGGESTION 3:</i>	<i>Develop and implement written procedures for the valuation of leasehold improvements. -----</i>	<i>15</i>
<i>SUGGESTION 4:</i>	<i>Request compatible use information on agricultural questionnaires.-----</i>	<i>18</i>
<i>SUGGESTION 5:</i>	<i>Contact all owners of land zoned as TPZ to determine if values attributable to compatible uses are escaping assessment. -----</i>	<i>25</i>
<i>SUGGESTION 6:</i>	<i>Review the capitalization rate used for mining claim values and secure from mining claim owners the data necessary to adequately appraise such properties. -----</i>	<i>25</i>
<i>SUGGESTION 7:</i>	<i>Improve audit quality by requiring the use of an audit checklist and a comprehensive audit narrative in every audit.-----</i>	<i>27</i>
<i>SUGGESTION 8:</i>	<i>Review the practice of establishing minimum percents good.-----</i>	<i>28</i>
<i>SUGGESTION 9:</i>	<i>Specify the due date for filing the aircraft statement. -----</i>	<i>31</i>

ADMINISTRATION

BUDGET AND WORKLOAD HISTORY

Since the 1991-92 roll year, the total local assessment roll in Mariposa County, net of all exemptions except the homeowners' exemption, has increased in excess of 36 percent; statewide the increase has been 15.5 percent. The following roll values for Mariposa County are taken from Table 7 of the State Board of Equalization Annual Reports; the staffing levels are from the assessor's annual report to the BOE's Policy, Planning, and Standards Division.

ROLL VALUE INCREASES AND STAFFING LEVELS

<u>Fiscal Year</u>	<u>Total Value</u>	<u>Increase</u>	<u>Statewide Increase</u>	<u>Staffing Levels</u>
1991-92	\$ 747,861,000	N/A	N/A	11
1992-93	\$ 844,838,000	13.00%	5.4%	11
1993-94	\$ 875,277,000	03.60%	3.1%	11
1994-95	\$4,965,193,000	10.30%	1.3%	11
1995-96	\$1,000,401,000	03.60%	0.7%	11
1996-97	\$1,010,169,000	01.00%	1.3%	13
1997-98	\$1,018,274,000	00.08%	2.8%	11

The appraisal staff budgeted to handle real and personal property assessments consists of one supervising appraiser, three real property appraisers, and one part-time auditor-appraiser. During fiscal year 1996-97, for lien date 1997, the Mariposa County assessor prepared an assessment roll containing approximately 4,000 assessments that had a change in taxable value from lien date 1996. The approved budget for that fiscal year was \$474,000, which approximates the previous years' budgets. This budget funded 13 full time positions. The assessed value of the total roll was approximately \$1.018 billion, which produced property tax revenue of \$10.18 million.

The real property workload processed during the 1996-97 fiscal year included 500 changes in base year values because of transfers of ownership and 250 changes in base year value because of new construction events. The real property section also performed many other tasks involving assessment appeals, disaster relief, and decline in value reviews.

For lien date 1997 there were 1,700 unsecured assessments on the roll with a total unsecured roll value of \$36.9 million. Included were 470 boats and 50 aircraft. In addition, the personal property section accomplished many other tasks including assessing possessory interests and handling assessment appeals.

The following analysis of Mariposa County utilizes the State Board of Equalization's A Report on Budgets, Workloads, and Assessment Appeals Activities in California

Assessors' Offices, 1995-96 dated May 1997. This report is a compilation, by the BOE's Policy, Planning, and Standards Division, of data originating from an annual questionnaire sent to all assessors.

TOTAL ROLL UNITS AND NET ROLL VALUE

<u>Total Local Roll Units</u>	<u>Total Secured Roll Units</u>	<u>Total Unsecured Roll Units</u>	<u>Total Net Roll Value</u>
14,161	12,501	1,660	\$1,102,961,000

STAFFING

<u>Assessor & Other Managers</u>	<u>Real Property Appraisers</u>	<u>Business Property Appraisers</u>	<u>Total Staff</u>
2	3	1	13

UNITS WORKED PER APPRAISER

<u>Number of Real Property Units Worked</u>	<u>Units Worked Per Appraiser</u>	<u>Number of Unsecured Units Worked</u>	<u>Units Worked Per Auditor-Appraiser</u>
1,293	431	1,660	1,738

ASSESSOR'S BUDGET VS. ASSESSMENT ROLL

<u>Gross Budget</u>	<u>Budget Per Roll Unit</u>	<u>Tax Revenue Per Budget Dollar*</u>	<u>Roll Value Per Budget Dollar</u>
\$473,584	\$33.44	\$23.29	\$2,329

*At one percent tax rate.

ASSESSMENT APPEALS

The assessment appeals function is authorized by article IX, section 16 of the California Constitution. Revenue and Taxation Code sections 1601 through 1641.1 are the statutory references to guide county boards of supervisors in the appeals function. Government Code section 15606 (c) directs the Board of Equalization (BOE) to prescribe rules and regulations to govern local boards of equalization, and the BOE has adopted Property Tax Rules 301 through 326 to regulate assessment appeals.

A review of the appeals function involves both the activities of the county board of equalization and the activities of the assessor's office as they relate to assessment appeals. In order to make the appeals process efficient, the two organizations must have a close working relationship in the areas of case scheduling and document processing. At

the same time, the separation of authority and responsibility between organizations must be maintained.

In most California counties, the number of assessment appeals dramatically increased during the 1990's. This was caused by the California economic recession, which, among other things, fostered declines in real estate values. Revenue and Taxation Code section 51 requires that real property be annually assessed at the lower of its factored base year value or the current market value. An owner of property who believes that the current market value is less than the factored base year value is likely to request an assessment review. A review that does not satisfy the owner is likely to prompt a formal assessment appeal.

The Mariposa County Assessor has relatively few appeals because property values in Mariposa County have not fluctuated as much as in many other California counties. The assessor has been successful in justifying assessed values to taxpayers who believe they are overassessed. The table below summarizes the Mariposa County appeals workload over the last four years.

<u>Assessment Year</u>	<u>Applications Received</u>	<u>Withdrawals & Stipulations</u>	<u>Decisions by the Board</u>	<u>Appeals Pending</u>
1993-94	8	7	1	0
1994-95	16	15	1	0
1995-96	11	11	0	0
1996-97	17	13	1	3

Of the three pending appeals, two include unsecured accounts of one large medical center while the remaining appeal represents one large secured parcel.

Because of the low number of appeals we limited our review of the assessment appeals function. However, we did review the assessor's appeals procedures and found them to be well structured. When an appeal is going to be heard by the board, it is the assessor's policy to have the appraiser of record prepare a case supporting the value. This appraiser also makes the presentation before the county board of equalization.

Both the assessor and the board handle appeals in a very professional manner. We attended an appeal hearing that demonstrated this professionalism. In the hearing the main contention of the appeal involved the interpretation of Revenue and Taxation Code section 69(a), which deals with disaster relief. Prior to the hearing, we reviewed the assessor's staff presentation and found it to be of exceptional quality. Like the assessor's staff, the applicant's presentation was of very high quality and quite persuasive. Since section 69(a) was deemed to be somewhat ambiguous, the board ruled in favor of the taxpayer. However, we believe that the assessor demonstrated that the county's assessment appeals program is well run with few, if any, significant problems.

LOW VALUE PROPERTY EXEMPTION ORDINANCE

Revenue and Taxation Code section 155.20 permits a county board of supervisors to exempt from property tax all real property with a base year value and personal property with a full value so low that, if not exempt, the total taxes, special assessments, and applicable subventions on the property would amount to less than the cost of assessing and collecting them. In determining the level of the exemption, the board of supervisors shall determine at what level of exemption the costs of assessing the property and collecting the taxes, assessments, and subventions exceeds the proceeds to be collected.

The exemption authorized by section 155.20 shall be adopted by the board of supervisors on or before the lien date for the fiscal year to which the exemption is to be applied and may, at the option of the board of supervisors, continue in effect for succeeding fiscal years. Any revision or rescission of the exemption must be adopted by the board of supervisors on or before the lien date for the fiscal year to which that revision or rescission is to apply. As of January 1, 1996, the total base year value or full value allowed exemption by section 155.20 is limited to \$5,000.

On September 24, 1991, the Mariposa County Board of Supervisors passed Resolution 91-429 exempting assessed values of \$2,000 or less. This resolution was applicable beginning with the fiscal year 1992-93 and for the succeeding years.

RECOMMENDATION 1: Properly apply the low value property resolution approved by the county board of supervisors.

Our survey of the assessor's office records revealed that the assessor has not fully implemented the low value property exemption. The assessment records for properties that would be on the secured assessment roll with assessed values less than the \$2,000 exemption limit did not contain any mention or notation to indicate these properties qualified for this exemption, and the properties were assessed on the 1997 roll. These findings indicate that the assessor has not implemented the low value resolution. The assessor indicates that this is because the computerized assessment roll cannot identify secured assessments that have base year values that are less than \$2,000.

We recommend that the assessor implement the low value property exemption resolution as approved by the county board of supervisors.

DISASTER RELIEF

In December 1996, the Mariposa County Board of Supervisors adopted an ordinance providing tax relief for taxpayers whose property is stricken by misfortune or calamity; it amended an ordinance previously adopted in 1976. The amendment implements a recommendation of our previous assessment practices survey of Mariposa County.

This ordinance enables the assessor to apply the provisions of Revenue and Taxation Code section 170 to affected properties under the following conditions: (1) the total loss in full cash value to land, improvements, and personalty must be at least \$5,000, and not the fault of the owner; and (2) the applicant must notify the assessor within 60 days of such misfortune.

If, however, the assessor discovers the damage within six months of the misfortune, the assessor shall provide the last known owner with an application for reassessment. The completed application must then be returned to the assessor within 30 days, but in no instance more than six months after the date of misfortune.

We reviewed in excess of 40 real property records involving misfortune or calamity, and we found the assessor's staff had properly processed and reappraised these properties under section 170 requirements. The assessor has an excellent computer program that calculates the percentage of damage caused by the misfortune or calamity, the appropriate values to be enrolled on the supplemental roll, and the value for the forthcoming assessment roll. However, his discovery program could be strengthened.

SUGGESTION 1: Regularly obtain fire reports from fire departments within the county.

Currently, the assessor's staff relies primarily on newspaper articles, taxpayer notification, field inspection, and building permits to discover calamities. Another important available source of information is fire reports prepared by the various fire protection agencies in the county. We suggest the assessor obtain fire reports on a regular basis.

ROLL CHANGES

The assessor's most important duty is to annually complete the local assessment roll. Once the assessment roll is complete, it is delivered to the county auditor. After the delivery of the roll to the auditor, the assessor has no authority to change any assessment unless authorized by statutory provision or the board of supervisors and the county counsel.

RECOMMENDATION 2: Follow statutory requirements by citing proper code sections when processing roll changes.

The Revenue and Taxation Code specifies various legal authorities for assessment roll changes. We found that the assessor is not always citing proper statutory authority when making roll changes. Our review indicated that for some roll changes incorrect code sections were cited and for some no code section was cited.

In order to properly justify a roll change, correct code sections must be cited. We therefore recommend the assessor cite the proper statutory authority when processing roll corrections.

ROLL PREPARATION

RECOMMENDATION 3: Enroll each exemption with an identifying legend.

BOE Rule 252 (Contents of Assessment Roll) requires that the separately stated assessed values of all land, improvements, and personal property subject to taxation at general property tax rates, and of any privately owned land, improvements, and personal property of a type that is exempt from taxation, are to be listed on the assessment roll. In addition, the property must be enrolled with identifying legends or distinctive positions for amounts allowed pursuant to the homeowners' exemption.

When assessment and tax rolls are completed, several totals are extracted. A countywide total must be shown for each value column and for each type of exemption on the assessment roll. Dollar totals should be separately listed for the homeowners' exemption column. The amount of all other exemptions allowed may be combined or listed separately; separate listings are preferable. The homeowners' total for each revenue district is needed for reimbursement calculations. In a separate section of the tax roll, a tabulation should be made of both total assessed values and total tax extensions for each tax-rate area.

Presently, no exemption legend or code appears on the local assessment roll to identify the type of exemption assigned to a particular property. To assist the staff and general public in identifying the type of exemption listed on the roll, we suggest an alphabetic legend. The following is an example of an alphabetic legend that may be used as a guide.

Type of Exemption Legend

Aircraft/Aerospace Museum	A-M
Aircraft of Historical Significance	A-H
Art, Works of (ordinarily, no value is enrolled)	A
Cemetery (ordinarily, no value is determined for the exempt portion; the taxable portion is assessed in the usual manner)	X
Church	C
College	CU or U (University)
Disabled Veterans' (should be distinguished from veterans')	DV
Exhibition	EX or E
Homeowners'	H
Free Public Library (should be distinguished from library eligible for welfare exemption)	L
Free Public Museum (should be distinguished from museum eligible for welfare exemption)	M
Vessels	V
Veterans'	VE
Veterans' Organization	VO
Welfare	W

REAL PROPERTY VALUATION AND ASSESSMENT

BASE YEAR VALUES

Article XIII A of the California Constitution provides that the taxable value of real property shall not exceed its 1975 full cash value factored at no more than 2 percent per year for inflation unless there is a change in ownership or new construction. The 1975 full cash value and values that result from a change in ownership or new construction are known as base year values.

CHANGE IN OWNERSHIP

Revenue and Taxation Code section 60 defines change in ownership as a transfer of a present interest in real property, including the beneficial use thereof, the value of which is substantially equal to the value of the fee interest. As the definition indicates, the test for change in ownership is a three way test. In order to be a change in ownership, a transfer of ownership of real property must transfer a present interest in real property, as well as the right to beneficial use of the property, and the value of the property transferred must be substantially equivalent to the fee value of the property.

For the 1996 lien date, the assessor's staff processed approximately 500 changes in ownership -- approximately 4 percent of the parcels on the secured assessment roll. We reviewed files concerning partial interest transfers, legal entity ownership transfers, and excluded transfers such as parent/child transfers, and transfer of base year values for replacement dwellings.

No problems were found. Overall the assessor is doing a commendable job on his change in ownership program.

NEW CONSTRUCTION

At the time of our last survey, the assessor was valuing new construction as of the date of its discovery, rather than the date of completion. We are pleased to observe that the assessor has revised that policy and is now correctly valuing newly constructed property as of its completion date.

Discovery

In Mariposa County each appraiser is responsible for any new construction and transfer activity in an assigned area of the county.

Our previous survey of Mariposa County made a recommendation pertaining to the assessment of new construction. We recommended the assessor assess all qualifying new construction, improve the program for handling building permits, and enroll nonpermitted new construction as of the date of completion. The assessor and his staff have made a concerted effort to implement this three-part recommendation.

Building permits are the assessor's primary source of information regarding new construction. The permits are obtained on a regular basis from the Mariposa County Building Department and include all permits issued by the Department of Environmental Health. All parties applying for permits are required by the county building department to provide the assessor's parcel number where the new construction will occur.

An assessment clerk verifies the parcel number and assigns an activity code. The permit is routed to the appraiser responsible for the geographic area. The appraiser determines whether the permit indicates taxable new construction (e.g. an addition) or nontaxable construction (e.g. reroofing) and takes appropriate action. Subsequently, the supervising appraiser and the assessor review the appraiser's work.

The rough terrain in Mariposa County makes discovery of nonpermitted new construction difficult. But the appraisers are watchful for nonpermitted new construction, and when time permits, they canvas neighborhoods solely for the purpose of discovering such new construction.

Historical Costs

In Mariposa County, the assessor's staff uses the sales comparison approach to value residences and relies primarily on the cost approach to value additions that are not living space and to value new construction for other than residences. BOE cost data and Marshall Valuation Service cost data are used when the historical cost is considered unreliable or not available. When the owner of a property with new construction cannot be personally contacted, a questionnaire is mailed requesting information pertinent to the new construction. Approximately 40 percent of the property owners who acquire building permits are sent questionnaires; about 80 percent of these questionnaires are properly filled out and returned. Except for complex properties, if the questionnaire is not returned, the appraiser values the new construction based on the information available. If questionnaires concerning major properties are not returned, the assessor then requests information under Revenue and Taxation Code sections 462 and 468. The required information is generally provided on this second request.

Most of the appraisal records we reviewed were properly documented, and some had market data supporting the new construction values. Overall the assessor has an effective and well administered program for assessing newly constructed property. However, we make the following suggestion that, if acted upon, will enhance an already good program.

SUGGESTION 2: Collect and document data supporting the adjustment applied to new swimming pool costs.

It is often difficult to estimate the value of newly constructed ancillary additions to property such as swimming pools. Generally, actual historical costs are available but their relationship to value may be difficult to determine. It is the assessor's policy to value newly constructed swimming pools at 75 percent of actual cost. The assessor does not have market data supporting his policy for valuing new swimming pools. It is based upon the fact that a number of swimming pools that have been taken out of use (filled in with dirt) and information from realtors regarding the difficulty of selling properties with swimming pools. We suggest the appraisal staff make an effort to document data that may support the assessor's policy.

Leasehold Improvements

Leasehold (or "foreign") improvements are improvements located on land owned by someone other than the owner of the improvements. Leasehold improvements may vary from simple tenant improvements, such as storefronts, interior finish, partitions, etc. to entire buildings. Leasehold improvements may be enrolled on either the secured roll or the unsecured roll. In most cases these improvements cannot be secured to the land assessment but they must, nevertheless, be assessed in the same manner as other real property.

SUGGESTION 3: Develop and implement written procedures for the valuation of leasehold improvements.

The Mariposa County Assessor has no specific policy for the assessment of leasehold improvements. Some are appraised by real property appraisers and are assessed on the secured roll, while others are appraised by the business property section and assessed on the unsecured roll.

The assessor should develop a written policy for the assessment of leasehold improvements.

DECLINES IN VALUE

Revenue and Taxation Code section 51 requires that real property subject to assessment under article XIII A of the Constitution be annually assessed at the lower of the factored base year value (FBYV) or the current market value, as defined in Revenue and Taxation Code section 110. Adverse economic conditions during the past few years have caused property values in many areas of California to decline or stagnate. As a result, many county assessors have had to reduce taxable values to less than the factored base year value. Unlike some of the larger urban counties, the number of such reductions made in Mariposa County is modest and has not had a major impact on the assessor's workload.

A current market value that is less than the factored base year value requires annual review until the current market value exceeds factored base year value. We found no formal procedures for identifying properties that have declined below their factored base-year values. Staff appraisers are responsible for discovering and reappraising all properties, in their designated geographic area, that have declined in value. Methods for discovery vary among the appraisers. They rely primarily on the following methods: (1) knowledge of an area's values, (2) specific requests for review by individuals, and (3) formal appeals to the assessment appeals board.

RECOMMENDATION 4: Improve controls for decline in value assessment procedures by: (1) insuring such assessments are reviewed annually; and (2) insuring the inflation factor is not applied to assessments with a taxable value less than factored base year value.

Annual Review

A listing for the 1997-98 assessment roll for Mariposa County indicated there were 111 parcels with a taxable value less than factored base year value. Of these, we examined 33 randomly selected parcels from various geographic areas of the county. For these parcels, we found that the assessor's staff is obtaining and using good market data for review.

We found a number of instances where properties with such taxable values were not reviewed annually. As required by section 51, any taxable value for real property that is less than the factored base year value must have an annual review until current market value exceeds the factored base year value. The assessor should implement a system to ensure that all such properties have an annual review.

INFLATION INDEX

We found several instances where inflation factors were applied to taxable values that were less than the factored base year value. In some cases, this was done for successive years. Section 51 requires the assessor to enroll the lesser of the factored base year value or the current market value. These errors occurred because the assessments were not identified as having a taxable value less than factored base year value.

The assessor should improve procedures for annual review of all declines in value assessments and ensure that inflation factors are applied to base year values only.

SUPPLEMENTAL ASSESSMENTS

Revenue and Taxation Code section 75.10 requires that a new base year value be established whenever real property has a change in ownership or when new construction,

resulting from actual physical new construction on the site, is completed. Actual physical new construction includes the removal of a structure from land. As stated in Revenue and Taxation Code section 75.41, the effective date of the new base year value is the first day of the month following the date of the actual event.

For these new base year values, section 75.11 requires that supplemental assessments be issued. For events that occur from January 1 through May 31, the first supplemental assessment is the difference between the new base year value and the current roll's taxable value; the second supplemental assessment is the difference between the new base year value and the taxable value on the roll being prepared. For events that occur from June 1 through December 31, only one supplemental assessment is required. The supplemental amount is the difference between the new base year value and the taxable value on the roll.

In Mariposa County all supplemental assessments, including those with values of \$2,000 or less, are prepared daily and edited monthly. A supplemental assessment notice for each assessment change is sent to the taxpayer. On the tenth of the month the new values are enrolled on the supplemental roll and transmitted to the county auditor. Included on the supplemental roll are the extended taxes due or amounts to be refunded. By the authority of sections 75.41 and 4986.8 of the Revenue and Taxation Code and County Resolution 91-429, the county auditor cancels all supplemental assessments of \$20 dollars or less.

Our review of the files, procedures, and guidelines used to process supplemental assessments indicated that the assessor's staff is completing this task in a very efficient and accurate manner with no undue delays.

SPECIAL PROPERTY TYPES AND PROCEDURES

Agricultural Properties

An agricultural preserve is established between a landowner and a city or county pursuant to Government Code section 51230. The taxable value of land under such a contract is limited to the lowest of the value of its agriculture income-producing ability, including any compatible use income; the current market value; or the factored base-year value. Revenue and Taxation Code sections 423 through 430.5 express the standards for determining the agricultural value of lands subject to agricultural preserve contracts.

Mariposa County, for the 1997 lien date, had 498 parcels, totaling 196,488 acres, encumbered by California Land Conservation Act (CLCA) contracts. Four parcels totaling 247 acres were enrolled on the 1997-98 assessment roll at their factored base-year values because those values were lower than the calculated agricultural values. One parcel consisting of 71.59 acres is in non-renewal status; its taxable value was properly determined. Annually, the supervising property appraiser manually calculates the values of all CLCA properties. The time needed to calculate values on these restricted properties is about five working days.

All of the properties that are currently under CLCA contract in Mariposa County are grazing or dry farm land. Every three years an agricultural preserve questionnaire is mailed to each property owner who is under CLCA contract. The questionnaire return rate is about 80 percent.

SUGGESTION 4: Request compatible use information on agricultural questionnaires.

The agricultural preserve questionnaire is a well designed form for obtaining information concerning cattle operations. However, it does not request the date a rental agreement was negotiated, the terms of the lease, or information about compatible uses. We located an operating rock quarry on a 1,400 acre grazing land parcel west of Mariposa that is escaping assessment. A questionnaire inquiring about compatible uses may have prevented this escape. We suggest the assessor help prevent such escapes by including questions regarding compatible uses on the agricultural preserve questionnaire.

RECOMMENDATION 5: Revise agricultural assessments by: (1) field reviewing all CLCA properties; (2) increasing documentation concerning carrying capacity and other information needed to value grazing lands and growing improvements; (3) using animal unit months to value grazing lands; and (4) assessing all taxable trees and vines.

FIELD REVIEW ALL CLCA PROPERTIES

In Mariposa County it has been many years since the CLCA properties have been field reviewed. The owners and/or lessees of CLCA properties should be contacted for such a field review, at which time the appraiser can confirm the actual carrying capacities, AUM (animal unit month) rents, and information on compatible uses. The appraiser should also use this occasion to inventory improvements that may have escaped assessments. We recommend periodic field reviews to ensure up-to-date and more accurate CLCA assessments.

INCREASE DOCUMENTATION

We reviewed 52 agricultural parcels that were either leased or rented. We compared contract rents with those used to value the properties. In several instances the contract rent for good quality land was higher than the economic rent the assessor's staff used to value the property. Furthermore, there was no documentation in support of the economic rent estimate. Rents used by the appraisers to value poor quality grazing land appeared to be within range of market rents. Records for better quality grazing land contained a brief description of topography and estimated carrying capacity; however, little or no information of this type was found in poor quality grazing land files.

USE ANIMAL UNIT MONTHS TO VALUE GRAZING LANDS

This portion of the recommendation is repeated from our last assessment practices survey. The supervising appraiser continues to use an economic rent per acre to calculate a capitalized income value for grazing land. Applying an economic rent per acre is a proper valuation technique for many types of agricultural properties; however, the technique fails to recognize the various capabilities and qualities of grazing lands because ranch units and individual parcels may vary in the quality of open land, brush, rock outcrops, quality of feed, etc. Therefore, applying a rent per acre is not usually appropriate when valuing grazing lands.

Rental income from grazing lands should be converted to the amount of rent paid per animal unit month (AUM). Although the contract rental rate is stated in dollars per acre, AUM's must be considered when establishing proper comparability of sold properties or determining rental income for grazing lands. The animal unit is a simple and accurate method for comparing grazing lands. It measures carrying capacity and thus the productivity of grazing lands. Assessors' Handbook Section 521 (AH 521), Part I describes the use of animal units when appraising grazing lands. We recommend that appraisers use animal units and AUM's when valuing grazing lands.

LOCATE AND ASSESS ALL TAXABLE TREES AND VINES

The assessment of fruit and nut bearing trees and grapevines is described in Revenue and Taxation Code sections 105 and 211, and Property Tax Rule 131. These property items are classified as improvements. Trees planted in orchard form are exempt from taxation for four years after the season of planting; grapevines planted in vineyard form are exempt for three years after the season of planting. Date palms are assessed as land for four years after the end of their exemption period and then enrolled as improvements.

The Mariposa County Agricultural Commissioner's 1996 Annual Crop and Livestock report indicates there are 215 acres of bearing apple trees generating a gross income of about \$227,000, plus 20 acres of nonbearing apple trees located in the county. Apple orchards are not being assessed in Mariposa County.

The agricultural commissioner's report further indicated that there are 82 bearing acres of wine grapevines and 32.8 acres of nonbearing vines in the county. The assessor's vineyard appraisal records indicate that less than 50 acres of bearing and nonbearing vines are being assessed. Replacement cost new less depreciation was used to value nonliving vineyard improvements (stakes, trellises, drip irrigation system, and wind machines), but there is no documentation indicating the source of vineyard values.

We recommend the assessor direct his appraisal staff to make a concerted effort to locate and assess all taxable trees and vines, as well as document information supporting their tree and vine values.

Taxable Possessory Interests

A taxable possessory interest (PI) is established when a private person has a right to use publicly owned real property. The elements necessary for a possessory interest assessment program are the ability to identify the government agencies creating possessory interests, the holders of the possessory interests, terms of possession, and contract and economic rents. Revenue and Taxation Code section 107 et seq. and Property Tax Rules 20 through 28 define the requirements for possessory interest assessments.

In the Mariposa County Assessor's Office, the possessory interest assessment program is the responsibility of the senior appraiser. All possessory interest assessment records are maintained in a separate file cabinet and are reviewed when appropriate. There were 315 possessory interest properties assessed on the 1997-98 unsecured assessment roll. The assessed value of these properties total \$9,817,745, which represents an increase of \$1,962,979, or approximately 25 percent, over the 1996 total assessed value of \$7,854,766.

We randomly selected 24 possessory interest assessments for review. This selection included the Mariposa/Yosemite Airport; the Mariposa County Fair Grounds; the El Portal Trailer Park; Yosemite Valley National Park (USPS); and Lake McClure Marina. Our review indicated that the assessor's staff has been conscientious in their continuing effort to improve the possessory interest assessment program.

In our prior assessment practices survey, we recommended that the assessor revamp the filing system for possessory interest records. The assessor has implemented this recommendation. The PI records are now maintained in an adequate manner, and reflect supporting documentation in most instances. However, despite the improvements, changes to the possessory interest program are needed.

RECOMMENDATION 6: Revise the possessory interest assessment program by: (1) ensuring that all possessory interests are revalued when changes in ownership occur; (2) documenting possessory interest values that are lower than low value exemption level; (3) assessing all taxable possessory interests at the county fairgrounds; (4) documenting source of capitalization rates; and (5) not assessing possessory interests in government-owned manufactured homes.

CHANGES IN OWNERSHIP

Prior to our fieldwork, which took place in July 1997, Revenue and Taxation Code section 61(b)(2) was revised effective January 1, 1997. This section provides that a renewal or extension of a possessory interest during the term of possession used by the assessor to value that interest does not cause a change in ownership. Instead the assessor must create a new base year value that is effective at the end of the term of possession

used to originally value the PI. Once the term of possession is estimated, the base year value remains the same until the expiration of the term, regardless of any options exercised. A change in tenants will still trigger an ownership change.

Prior to January 1, 1997, the assessor was missing changes in ownership of possessory interests at the Mariposa/Yosemite Airport. Possessory interests in hangar spaces were not revalued for a change in ownership when the contract and/or anticipated term of possession expired. We recommend the assessor review the revised code sections regarding possessory interests and comply with the appropriate provisions.

The assessor should review all PI leases for hangars or hangar sites and establish base year values consistent with the requirements of Revenue and Taxation Code sections 61 and 62.

LOW VALUE POSSESSORY INTERESTS

In addition to the hangar sites at the Mariposa County Airport, there are currently 41 aircraft tie-down sites. Thirty-five of these sites are rented on a monthly basis. The remaining six sites are reserved for transits and rented daily. The assessor's staff said they were not assessing tie-downs as possessory interests because there was insufficient value to warrant assessment, as prescribed by the county's low value exemption resolution.

A number of the tie-down sites have been leased to the same tenant since 1984. The rent for tie-downs was \$26/month as of July 1997. Rents were increased in 1995 to \$25/month from the original rent in 1984 of \$12/month. Permanent dirt tie-downs were also originally \$12/month and are \$18/month as of July 1997.

The county's low value exemption amount is \$2,000. However, an appraisal of the possessory interest is necessary to determine whether or not the base year value is less than the exemption ceiling. We found no documentation that the base year values of these aircraft tie-downs were less than the exemption ceiling. Depending on the capitalization rate, the anticipated term of possession, and the economic rent at the time of creation of the base year value, some of these tie-downs may have a base year value that exceeds \$2,000.

We recommend the assessor value aircraft tie-down possessory interests and assess those that have a base year value in excess of the exemption amount.

COUNTY FAIRGROUNDS

The Mariposa County fairground hosts the annual county fair. In addition, portions of the fairground are rented, typically for one to two days, to private individuals and organizations during the year.

Our review indicated that only the caretaker's residence is being assessed as a PI at the fairgrounds. In order to determine whether any other uses qualified for taxable possessory interest assessments, we contacted the fairground general manager. We found that for the last three years, one concessionaire has been paying an average annual rental fee between \$19,000 to \$20,000. The size of the fee and the recurring nature of the use would qualify this as a taxable possessory interest. Besides this operator, there are a number of concessionaires with one-year agreements who have been returning for years.

We recommend that the assessor review all private uses at the Mariposa County Fairgrounds. Those qualifying as taxable possessory interests should be assessed and escape assessments made when appropriate.

DOCUMENT SOURCE OF CAPITALIZATION RATES

The assessor's staff values possessory interests by using the direct income approach to value. In most cases, an 8 ½ percent capitalization rate is used. This same capitalization rate has generally been used for a number of years. In some instances, instead of the 8 ½ percent rate, staff used a 9 or 10 percent rate. While the rates may be proper, there was no documentation on the appraisal records to indicate why a particular rate was used. Good appraisal practice requires documentation of the rate derivation and we recommend the assessor's staff document, on the appraisal record, how capitalization rates are derived.

GOVERNMENT-OWNED MANUFACTURED HOMES

Revenue and Taxation Code section 5801(b)(2) provides that manufactured homes, subject to the Manufactured Home Property Tax Law, must be classified as personal property. Section 107 defines possessory interests as real property. A taxable possessory interest in personal property, except pollution equipment owned by a certain state agency, does not exist under current law.

We found that the assessor has enrolled PI assessments on three government-owned manufactured homes housing government employees. These manufactured homes are not on permanent foundations and are therefore classified as personal property. The assessed value, in each instance, was allocated to both land and the manufactured home. The possessory interest assessment on the land is valid. However, as stated above, there are no taxable possessory interests in personal property. The importance of proper classification is discussed in the manufactured home topic on page 31.

We recommend that the assessor review the manufactured home files to ensure that possessory interests in manufactured homes are not assessed.

Mutual Water Company Property

Water company properties may be municipal systems, private for-profit water companies regulated by the California Public Utilities Commission (CPUC), private for-profit water

companies not regulated by the CPUC, or mutual water associations which are not operated for a profit. Each type presents different assessment problems. The property of a municipal water company system is taxable only if the property is located outside the agency boundaries. All other water company property is taxable.

We reviewed the assessor's list of water companies currently being assessed or known to exist in Mariposa County. This list indicates that eight different entities provide water service in Mariposa County. Four of these are considered to be municipal water systems and are properly treated as exempt. Water providers classified as municipal water systems or water districts are: Coulterville Service Area; Lake Don Pedro Community Services; Mariposa Public Utility District; and Yosemite West Maintenance District. The remaining four are assessable mutual water companies.

A mutual water company is a private association of persons created for the purpose of providing water to its members or stockholders on a nonprofit basis. Usually the shares of stock are appurtenant to the individual parcels of land served by the company. Our review of the current practices indicate several areas that require improvement or change to the assessment procedures for mutual water company property.

RECOMMENDATION 7: Revise the assessment of mutual water company property by: (1) reviewing all water source properties that are annually inspected by the county's Environmental Health Office; (2) documenting pertinent information on the assessment records; and (3) uniformly assessing mutual water company property.

REVIEW ALL WATER SOURCE PROPERTIES

The assessor does not have a procedure for discovering mutual water company property. The county's Environmental Health Office is responsible for annually inspecting domestic water supply sources. The list of inspected water sources includes manufactured home parks, campgrounds, lodges, a country club, and water companies. The list is useful for discovery of water company properties, including assessable wells, pumps, and pressure systems. However, the assessor's staff does not review the list. Consequently, it is possible that some water company properties may be escaping assessment.

We recommend the assessor obtain and review a listing of all water source properties that are annually inspected by the county's Environmental Health Office to ensure that all taxable water company property is assessed.

ASSESSMENT RECORDS

Our examination of mutual water company assessment records indicated that the information contained in the files was inadequate for proper assessment of the property. Of the four mutual water company files reviewed, none contained articles of incorporation or a list of the parcels serviced. Articles of incorporation contain pertinent information such as how the stock is held, whether the company is profit or nonprofit,

water sources purchased, water rights included, and the method of dissolution. In many of the files, the information concerning improvements was limited, and in some cases, nonexistent. Without adequate data, we could not determine whether or not the water company properties were properly assessed.

We recommend that the assessor's staff obtain from each mutual water company the following information: (1) articles of incorporation and amendments; (2) bylaws and amendments; (3) a list of land, improvements, and personal property owned by the company, showing location; (4) a list of assessor's parcels served by each mutual water company; and (5) an annual business property statement.

UNIFORMLY ASSESS MUTUAL WATER COMPANY PROPERTY

Our examination of the assessor's records indicated that mutual water company properties are not being uniformly assessed. When mutual water company ownership interests are appurtenant to the land served by the company, the value of the landowner's equity interest in the mutual water company is typically reflected in the sale price of the property served and to which the shares attach.

In assessing property of three mutual water companies, the assessor's position is that the value of the property is included in the sale prices of the parcels served. However, the assessment records indicate that only the improvement values are included in the assessments of the parcels served; land is separately assessed to the mutual water companies. In valuing the property of a fourth company, the assessor has allocated all property value to the individual lots served by the company. No value was assigned to the parcel where the improvements are located and the assessor did not list this parcel on the roll as required by Revenue and Taxation Code section 602 and Property Tax Rule 252.

We recommend the assessor uniformly assess all properties owned by mutual water companies.

Timber Production Zone (TPZ) Property

Land that has been zoned for TPZ and that is not encumbered by a California Land Conservation Act contract is assessed according to TPZ site values contained in Revenue and Taxation Code section 434.5 that exclude the value of standing timber. There are 43 parcels of TPZ land totaling 8,628 acres in Mariposa County. The total assessed value of TPZ land on the 1997-98 assessment roll was \$956,982.

A recommendation in our previous survey of Mariposa County was to review TPZ land site classifications. The supervising appraiser, who applies the TPZ land site values in accordance with Revenue and Taxation Code section 434.5, has since reviewed and corrected site classifications that were in error. However, our review disclosed another problem; there are no assessments of values attributable to compatible uses pursuant to Revenue and Taxation Code section 435.

SUGGESTION 5: Contact all owners of land zoned as TPZ to determine if values attributable to compatible uses are escaping assessment.

Little effort has been made to determine whether or not there are existing compatible uses of TPZ land in Mariposa County. We suggest that the supervising appraiser conduct a survey for this purpose. Written inquiries about compatible uses should be made at regular intervals.

Mineral Properties

SUGGESTION 6: Review the capitalization rate used for mining claim values and secure from mining claim owners the data necessary to adequately appraise such properties.

In Mariposa County mining claims are assessed on the unsecured assessment roll; however as a result of the county's low value resolution only claims in excess of \$2,000 value are assessed.

The assessor generally uses a capitalization rate of 10 percent to value mining claims. This rate is likely low given the high risk nature of mineral exploration. A more appropriate capitalization rate would bring the value of more claims below the low value exemption threshold. We suggest the assessor reevaluate the current capitalization rate being used for mining claim valuations.

We found that production reports are not filed for many mining claims. Production reports contain information necessary for the proper appraisal of mineral producing properties and are oftentimes the sole source of needed information. We suggest the assessor establish procedures to secure the necessary production data from the mineral production operators or owners.

PERSONAL PROPERTY VALUATION AND ASSESSMENT

INTRODUCTION

The Mariposa County Assessor's personal property appraisal staff consists of one auditor-appraiser, who with assistance from three real property appraisers and three clerks, annually processes 1,200 personal property assessments. This workload includes 700 commercial, industrial, or agricultural business property statements, approximately 50 aircraft, and 470 boats. These assessments total approximately \$50 million on the local assessment roll.

Since our last survey, the assessor is attempting to obtain a personal computer to reduce much of the "hand" processing and manual computations done by the business property staff. The computer would also increase the accuracy of assessment calculations and minimize the need for roll changes that are the result of calculation errors. The assessor is also instituting a direct billing program for all accounts under \$30,000; this means 600 fewer assessments requiring processing.

AUDIT PROGRAM

The audit program is one of the most important functions of the business property assessment program. Revenue and Taxation Code section 469 requires that accounts valued at \$300,000 or more be audited at least once every four years. Property Tax Rule 192 clarifies section 469 by requiring that the threshold amount be met in each of four consecutive years.

A major objective of an audit program is to insure proper reporting on the business property statements. A major objective of an audit selection system is to audit those accounts which may produce tax change. For example, in making a choice between two accounts to audit, the assessor's first choice should be the account where a value change is likely to occur. Those accounts showing little or no likelihood of value changes should be considered low priority accounts and audits of these accounts can be deferred.

The assessor has been able to satisfy his mandatory audit requirements as well as conduct a non-mandatory audit program since hiring an auditor-appraiser in 1993. The assessor audits a certain number of nonmandatory accounts (below \$300,000) each year; however, he has not formalized a nonmandatory audit program. Although there is no legal requirement to audit small accounts, no auditing program is complete unless it includes a representative sampling of all sizes and types of accounts. The assessor is to be commended for auditing the nonmandatory level accounts.

Our previous survey found the Mariposa County Assessor's audit program to be very effective. However our following suggestion, if implemented, could improve audit quality.

SUGGESTION 7: Improve audit quality by requiring the use of an audit checklist and a comprehensive audit narrative in every audit.

Our review of 20 audits revealed the lack of an audit checklist and a comprehensive audit narrative. A reviewer, as well as taxpayer, cannot determine in sufficient detail the scope and adequacy of the audit without this supporting data.

Audits verify the data submitted on the property statement. Whether simple or complex, audits generally follow certain steps to ascertain the validity of reported figures and other information. A checklist details the pertinent points covered during the audit. The checklist, along with the audit narrative, provides valuable information for further questions, audit review, and future audit preparation.

We suggest that the assessor require the use of an audit checklist and a comprehensive audit narrative in every audit.

BUSINESS PROPERTY

Equipment Percent Good

The BOE annually furnishes equipment replacement cost new index factors and percent good factors to county assessors by publishing Assessors' Handbook Section 581 (AH 581).

RECOMMENDATION 8: Use the BOE's depreciation schedules as recommended when valuing mobile agricultural and construction equipment.

The assessor's staff depreciates mobile agricultural and construction equipment using the "Machinery and Equipment Percent Good Factors" schedule² in AH 581. This depreciation schedule does not differentiate among equipment types such as harvesters, which lose value at a faster rate than other mobile agricultural equipment, nor does it differentiate between new or used equipment. The use of this schedule tends to undervalue agricultural and construction equipment purchased used and overvalue agricultural and construction equipment purchased new.

The market value for mobile agricultural and construction equipment can be more closely approximated by using the "Agricultural and Construction Mobile Equipment Percent Good Factors" table in AH 581 which lists three groups of equipment: (1) construction mobile equipment; (2) agricultural mobile equipment except harvesters; and (3) harvesters. Within each group, there are columns for "New" and "Used" equipment with the pertinent percent good factors. The percent good factors for used equipment are higher than those for new equipment. This difference results from the initial accelerated depreciation of equipment acquired new.

² See page 5 ("Agriculture") and 6 ("Gardeners Construction") of the Ventura County Assessor's Combined Factors For 97 Processing dated 11-Mar-97 which the Mariposa County Assessor's appraisal staff is using.

Although the use of the percent good schedules published in AH 581 is not mandatory, the BOE recommends that any deviation from them be based on well-documented research and analysis of additional market data. The assessor did not provide us with research or studies to justify the schedules his staff uses.

We recommend that the assessor's staff use the agricultural and construction equipment schedule instead of the machinery and equipment table in the AH 581 to depreciate mobile agricultural and construction equipment.

SUGGESTION 8: Review the practice of establishing minimum percents good.

A full value factor is a value factor developed by multiplying a replacement cost new index factor by a percent good factor. The full value factor is applied to costs reported on the Business Property Statement in order to arrive at a value estimate for assessment purposes. The assessor has established a minimum percent good policy for certain types of property which results in minimum full value factors for the 1997 lien date. The following table shows the minimum full value factors and economic lives used by the assessor in 1997:

<u>Economic Life</u>	<u>Minimum Full Value Factor</u>
8 Years	29 percent of original cost
10 Years	32 percent of original cost
12 Years	34 percent of original cost
15 Years	37 percent of original cost

Use of the assessor's full value factors results in value estimates substantially higher than value estimates based upon factors contained in AH 581. One business account we reviewed showed that the full cash value using the AH 581 factors was \$4,655, but the assessor's value for the same equipment was \$25,692.

Deviations from the valuation schedules contained in AH 581 should be based upon market research and evidence. We found no such documentation. Therefore, we suggest that the assessor review and document his practice of using minimum percents good.

RECOMMENDATION 9: Require uniform application of trend factors and economic lives within similar business property types.

Our review of 25 business property statements, representing five major property type codes, showed a lack of consistency in economic lives used to assess the property of similar business types. Revenue and Taxation Code section 169 requires the BOE to encourage uniform statewide appraisal and assessment practices. Standardization and consistency in the application of index and percent good factors promote such uniformity.

We recommend that the assessor stress uniformity in the selection and application of index and percent good factors used to value personal property and fixtures.

Classification

RECOMMENDATION 10: Properly classify fixed machinery and equipment as real property.

We found instances where all the machinery and equipment reported on a property statement was improperly classified as 100 percent personal property. Seven accounts we reviewed were of the type that normally require segregation of the property into personal property and real property categories.

Revenue and Taxation Code sections 104, 105, and 106 and Property Tax Rules 121, 122, 123, and 124 govern the classification of property for assessment purposes. Section 2204 defines classification of property as any enumeration or grouping of property by a statute which results in it being treated differently from other property for purposes of taxation. Property Tax Rule 122.5 defines a fixture as an item of tangible property, the nature of which was originally personalty, but which is classified as realty for property tax purposes because it is physically or constructively annexed to realty with the intent that it remain annexed indefinitely.

Improper classification of machinery and equipment can affect how the property is taxed. The failure to properly classify equipment either as fixtures (real property) or personal property can result in an improper assessment for that equipment because real property is subject to the provisions of article XIII A of the constitution and personal property is not.

We recommend that the assessor properly classify fixed machinery and equipment as real property.

Computers

The Mariposa County Assessor used the valuation factors provided by the Board to value non-production computers. For the 1996 lien date, the assessor valued computers by using the Board recommended factors contained in Letter to Assessors (LTA) 96/19. For the 1997 lien date, the assessor used the recommended factors contained in LTA 97/18.

OTHER TAXABLE PERSONAL PROPERTY

Boats

The Mariposa County Assessor's Office is responsible for assessing 470 boats. Their total assessed value on the 1997-98 tax roll was \$6,915,870. The primary sources of boat discovery are Department of Motor Vehicles (DMV) reports, marina lists, and referrals from other counties. An annual field canvass of houseboats complements the discovery program.

RECOMMENDATION 11: Revise boat appraisal procedures by: (1) annually appraising boats at market value and (2) using a certified appraiser for valuation or review purposes.

APPRAISE PLEASURE BOATS AT MARKET VALUE

In Mariposa County, boats are valued using data from the *ABOS Marine Bluebook* (ABOS). The office technician enrolls reported purchase price if it falls within the ABOS value range. If the reported purchase price is outside the ABOS value range, the office technician uses the low value from the high-low value range of the guide. The assessor's conservative approach in valuing boats is dictated by a perceived "soft" market for boats. Once an initial value is set, future assessments are made by annually decreasing a boat's value by 10 percent. While this simplifies the assessment process, it assumes a fixed depreciation rate for each boat which might coincidentally yield market value. The assessor has no study that supports this annual value reduction. This arbitrary value reduction on all boats is an administrative convenience and should not be a substitute for actual market value appraisals.

If the assessor's staff lacks the time to annually appraise all boats, they should consider categorizing boats into new and used groups with six subgroups (powerboat, sailboat, inboard, onboard, inboard/outboard and jet ski) in each group. They could then determine the annual trends in market values for these groups and subgroups. This data could be the basis for valuing boats in these various groups and subgroups.

We recommend that the assessor's staff annually appraise all boats at market value using boat valuation guides or compile data supporting a percentage change in value from year to year.

CERTIFIED PERSONNEL

In Mariposa County an office technician prepares the assessments for boats. These duties include receiving vessel statements, reviewing the statements for completeness, and estimating the full cash value of the reported boats. The office technician also enrolls the estimated values and makes any necessary roll corrections.

Revenue and Taxation Code section 670(a) requires that every person performing the duties of or exercising the authority of an appraiser for property tax purposes as an employee of the state, any county or city and county, or city, either general law or chartered, must possess a valid appraiser's certificate issued by the State Board of Equalization. Assessment clerks should not assume the duties, responsibilities, or authority of a certified appraiser unless they hold such a certificate.

We recommend that the boat computations done by the office technician be reviewed by a certified appraiser who accepts responsibility for the opinion of value.

Aircraft

In Mariposa County the primary sources for discovering assessable aircraft are airport manager reports, FAA annual position listing, the Monthly Activity Listing (provided by the State Board of Equalization), and referrals from other counties and aircraft owners. The staff also conducts an annual field canvass of airports.

RECOMMENDATION 12: Revise general aircraft assessment procedures to comply with BOE directives for assessing aircraft.

The assessor's staff uses the required primary guide, *Aircraft Bluebook Price Digest*, to appraise aircraft, but not in the manner intended. They use a category in this valuation guide entitled "equipped per base average." This category indicates the average low and high wholesale value for each type of aircraft.

Revenue and Taxation Code section 5363 requires that when assessing aircraft the county assessor shall determine the market value of aircraft in accordance with the standards and guides to market value of aircraft prescribed by the Board. Previous to the 1997 lien date, the BOE had published aircraft valuation data each year in Assessors' Handbook section 587 *Aircraft Valuation Data*. The Board no longer publishes this book and recommends instead that counties determine market value by referring to a commercially published aircraft price guide, *Aircraft Bluebook Price Digest*.

The elected Board Members approved this aircraft valuation source on January 10, 1997 as the primary guide for valuing general aircraft. For aircraft not listed in the *Aircraft Bluebook Price Digest*, the Board approved the use of the *Vref Aircraft Value Reference*. The Board Members further directed that the listed retail values shall be reduced by 10 percent to provide reasonable estimates of fair market values for aircraft in truly average condition on the lien date.

We recommend that the assessor revise his general aircraft assessment procedures by using the listed retail values, less 10 percent instead of the wholesale values. This will bring the aircraft assessments into compliance with the Board's directive.

SUGGESTION 9: Specify the due date for filing the aircraft statement.

When an aircraft is purchased in, or moved into, Mariposa County, an aircraft statement requesting the make, model, and year of manufacture of the aircraft is mailed to the owner. The assessor's authority to request this information is based on Revenue and Taxation Code section 5365. The aircraft statement also asks for information pertaining to the engine (e.g., type of engine, engine hours since major overhaul), optional equipment, and other pertinent information necessary for making an assessment. A majority of assessors in California use the same or a similar aircraft statement. Mariposa County does not include a due date for filing the statement.

If receipt of the aircraft statement is prior to the last Friday in May of each year, staff determines the value and makes any necessary adjustments using recommended valuation guides. If the statement is received after the last Friday in May, the staff adds a penalty that is 10 percent of the aircraft's value for filing the statement after the deadline specified in Revenue and Taxation Code section 5367.

We believe that the assessor will receive more cooperation from aircraft owners if the aircraft statement includes a specific deadline for filing the statement. In addition, the 10 percent penalty requirement of section 5367 should be clearly highlighted to warn the aircraft owners of the consequence of late-filing or non-filing of the aircraft statement.

We suggest that the assessor revise his aircraft statement to include a specific filing deadline and the 10 percent penalty notice.

Manufactured Homes

Revenue and Taxation Code section 5801 requires that manufactured homes subject to property tax, other than those which are placed on approved permanent foundations, be classified as personal property. Classification of manufactured homes as personal property, instead of as real property, can have several tax consequences. A manufactured home classified as personal property can be exempt from taxation if it is: (1) held for sale or lease by a dealer; (2) owned by military personnel on active duty; (3) owned and used by a bank, insurance company, or financial corporation; or (4) owned by a governmental agency and used by a private person. Improper classification can also affect the amount of taxes levied against a manufactured home because of special assessments, which are levied only against real property.

RECOMMENDATION 13: Classify manufactured homes, except those placed on approved permanent foundations, as personal property.

The assessor currently classifies all manufactured homes as improvements. This classification is proper only for those on permanent foundations. The majority of manufactured homes are not on permanent foundations and therefore should be classified as personal property. The tax impact of improper classification is demonstrated by the example cited in the possessory interest topic on page 21.

We recommend that the assessor classify manufactured homes, except those on approved permanent foundations, as personal property.

ASSESSOR'S

RESPONSE

TO

BOARD'S

RECOMMENDATIONS



Assessor-Recorder

Gary Estep
Assessor-Recorder

Assessor (209)966-2332
Recorder (209)966-5719

December 15, 1998

State Board of Equalization
Mr. William B. Jackson, Chief
County Property Tax Division
450 N Street, MIC: 62
Sacramento, Ca.

Dear Mr. Jackson:

Pursuant to Section 15645 of the Government Code, the following represents the Assessor's response to the Assessment Practices Survey by the State Board of Equalization on the 1993-94 Assessment Roll and other office procedures.

I am pleased that the survey reports that, " Mariposa County's' assessment program is in substantial compliance with the law." Mariposa County was also found to be within all legal and statistical limits, as is required by Section 75.60 of the Revenue and Taxation Code and Section 15640 of the Government Code.

In my response to the survey report you will see that most of their recommendations have already been implemented or are in the process of being implemented. We will continue to seek the support and endorsement of the State Board, but the board needs to take into consideration that sometimes their suggested solutions are not always feasible for counties to do, based on staffing or budgets.

I want to thank the survey team for their professional and courteous manner in which they conducted the survey.

I especially want to thank the employees of the Assessor's Office for their excellent work and commitment to public service. The accomplishments of my office are the direct result of a dedicated staff and the support of my Board of Supervisors and County Administration.

Sincerely,

Gary Estep
Assessor-Recorder

Mariposa County Hall of Records

P.O. Box 35, Mariposa, CA 95338

RECOMMENDATION 1: Properly apply the low value property resolution approved by the county board of supervisors.

Response: Since the passage of the resolution we have implemented the procedure, as approved by the Board. Prior to the resolution we had no authority to exempt low value properties. We have not searched for low value base year, due to the computerized assessment roll cannot identify those assessments.

RECOMMENDATION 2: Follow statutory requirements by citing proper code sections when processing roll changes.

Response: We concur and have already implemented this procedure.

RECOMMENDATION 3: Enroll each exemption with an identifying legend.

Response: We concur, however our current computer system has no available space for such code.

RECOMMENDATION 4: Improve controls for decline in value assessment procedures by: (1) insuring such assessments are reviewed annually; and (2) insuring they inflation factor is not applied to assessments with a taxable value less than factored base year value.

Response: We concur, annual reviews will continue to be done and the inflation factor will not be applied.

RECOMMENDATION 5: Revise agricultural assessments by: (1) field reviewing all CLCA properties; (2) increasing documentation concerning carrying capacity and other information needed to value grazing lands and growing improvements; (3) using animal unit months to value grazing lands; and (4) assessing all taxable trees and vines.

Response: The Williamson Act properties in our county are all grazing land, to field inspect these properties would not change the assessment process, since grazing land characteristics do not change.

Revenue and Taxation Code 423 (1) states " where sufficient rental information is available the income shall be the fair rent which can be imputed to the land being valued based upon rent actually received for the land by the owner and upon typical rentals received in the area for similar use." We send our questionnaire

out every 3 years, and we have a high rate of return with accurate information. We use actual rents which we feel are the most accurate and have less assumptions.

We do not have any trees and vines properties covered under the Williamson Act.

RECOMMENDATION 6: Revise the possessory interest assessment program by: (1) ensuring that all possessory interests are revalued when changes in ownership occur; (2) documenting P.I. values that are lower than low value exemption level; (3) assessing all taxable possessory interests at the county fairgrounds; (4) documenting source of capitalization rates; and (5) not assessing possessory interests in government-owned manufactured homes.

Response:

1. Due diligence is taken to revalue possessory interests upon changes in ownership. Staff will re-emphasize the importance of accurate and timely reporting by tax-exempt agencies of changes in ownership.
2. Documentation verifying low value has already been formalized and included in the appropriate agency files. All aircraft tie-downs continue to qualify for low value exclusions.
3. We will further review those potential possessory interests at the county fairgrounds and enroll those that qualify as taxable possessory interests.
4. Documentation of rate derivation will be added to each appraisal record.
5. The three cases of possessory interest assessments on government-owned manufactured homes have been corrected.

RECOMMENDATION 7: Revise the assessment of mutual water company property by: (1) reviewing all water source properties that are annually inspected by the county's Environmental Health Office; (2) documenting pertinent information on the assessment records; and (3) uniformly assessing mutual water company property.

Response: The Assessor agrees to contact the Environmental Health Office, but we are currently assessing all water companies. The Planning Department notifies us of any new or prospective development and the proposed conditions.

RECOMMENDATION 8: Use the BOE's depreciation schedules as recommended when valuing mobile agricultural and construction equipment.

Response: The Assessor concurs and has already implemented this procedure as of the 1998 tax year.

RECOMMENDATION 9: Require uniform application of trend factors and economic lives within similar business property types.

Response: The Assessor concurs and has already implemented this procedure as of the 1998 tax year.

RECOMMENDATION 10: Properly classify fixed machinery and equipment as real property.

Response: The Assessor concurs and has already implemented this procedure as of the 1998 tax year.

RECOMMENDATION 11: Revise boat appraisal procedures by: (1) annually appraising boats at market value and (2) using a certified appraiser for valuation or review purposes.

Response: We will continue to value boats annually to establish market value and they will be reviewed by the Supervising Appraiser and Assessor.

RECOMMENDATION 12: Revise general aircraft assessment procedures to comply with BOE directives for assessing aircraft.

Response: We have found that most of the 50 aircraft in our county are very old and below average condition, therefore the wholesale category which we use from the aircraft bluebook best reflects market value.

RECOMMENDATION 13: Classify manufactured homes, except those placed on approved permanent foundations, as personal property.

Response: While we are not aware of any manufactured homes being inappropriately assessed (by special assessment or otherwise), we concur with the points in this recommendation and will comply as soon as funds and time, both data processing and assessor's staff, are available. Since are program is working and working well, this project has a very low priority.